

Stimulus Act Provides Substantial Tax Breaks for Businesses

The American Recovery and Reinvestment Act of 2009 (ARRA), signed by President Obama on Feb. 17, provides close to \$300 billion in tax breaks for businesses and individuals, and hundreds of billions more for spending projects designed to stimulate our nation's flagging economy.

Below is an overview of the more widely applicable tax changes affecting businesses in the new law. If you would like more detailed information about this new tax law, please give us a call. We would be glad to help you determine exactly how ARRA will affect your tax liability — and what you should do to take full advantage of the act.

■ **Reduced estimated tax payment requirements.** For 2009, ARRA reduces the estimated tax payment requirements for many small business owners. Owners generally will qualify for the reduced payments if their adjusted gross income (AGI) for 2008 was less than \$500,000 and if more than 50 percent of their 2009 gross income is generated from a "small business," which is defined as a business that, on average, had fewer than 500 employees during 2008.

■ **Deferral of income from cancellation of debt.** Taxpayers generally must recognize cancellation-of-debt income (CODI) when they cancel — or repurchase — debt for an amount less than its adjusted issue price. In certain situations, ARRA allows businesses to defer CODI generated from repurchasing business debt after Dec. 31, 2008, and before Jan. 1, 2011, until calendar year 2014 and then report the income ratably over the 2014 through 2018 tax years.

■ **Shortening of S corporation built-in gains period.** Although a C corporation conversion to an S corporation isn't a taxable event, the S corporation normally must hold on to its assets for 10 years to avoid tax on any built-in gains that existed at the time of the conversion. For conversions occurring in 2009 and 2010, however, ARRA reduces this holding period to seven years.

The act also expands some important tax breaks for businesses:

■ **Net operating loss carryback.** A net operating loss (NOL) generally may be carried back two years to generate a current tax refund, providing a cash infusion in times of loss. For 2008 (not 2009), ARRA extends the maximum NOL carryback to five years for small businesses with gross receipts of \$15 million or less.

■ **Work Opportunity credit.** Employers can claim a credit equal to 40 percent of the first \$6,000 of wages paid to employees in certain target groups, such as ex-felons, food stamp recipients and disabled veterans. ARRA expands the eligible target groups to include unemployed veterans and disconnected youth. This expanded benefit applies to such workers hired in 2009 and 2010.

■ **Depreciation breaks extended.** To spur additional investment, ARRA extends the increase in the Section 179 limit for initial year expensing to \$250,000 (from \$125,000 indexed for inflation). The expensing election begins to phase out dollar for dollar when total asset acquisitions for the tax year exceed \$800,000 (up from \$500,000 indexed for inflation). The new higher limit applies for calendar year 2009 or a business' fiscal year that begins in 2009.

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Tax Season Office Hours Extended

To serve clients as effectively as possible, the firm has extended its office hours during the tax season:

Monday – Friday
8 a.m. - 5 p.m.
Saturday
9 a.m. - 3 p.m.

Saturday hours will be in effect through Saturday, April 14.

Need a Place to Hold a Meeting for Your Staff?

As a service to our clients, we offer the use of our conference rooms and large meeting room. These rooms can accommodate from four people to as many as 30 people comfortably.

To check on availability of space, contact Tracy Ceritelli at 396-4200 or by e-mail at tceritel@whalencpa.com.

On Jan. 30, Geotech, an environmentally friendly company specializing in recycling coated plastics used in consumer and automotive applications, held an all-day meeting at our office with members of the company's management team.

In addition, clients who experience power outages for an extended period due to natural disasters or other circumstances should inquire about the availability of temporary office space at our offices.

Stimulus Act Gives Tax Breaks to Individuals and Families

ARRA also includes tax relief for individuals and families. Some of the provisions are included below. See www.whalencpa.com for a comprehensive overview.

- **“Making Work Pay” Credit.** For 2009 and 2010, ARRA creates the Making Work Pay credit of up to \$800 for joint filers and \$400 for other filers. The credit generally is phased out for joint filers with AGIs exceeding \$150,000 and for other filers with AGIs exceeding \$75,000. Unlike last year’s “recovery rebate,” which was distributed via checks mailed to taxpayers, the new credit will generally be “paid” through a reduction in

income tax withholding.

- **Expanded earned income tax credit.** The new law provides tax relief to families with three or more children and increases marriage penalty relief. The changes apply for 2009 and 2010.

- **Expanded and revised higher education tax credit.** The new law creates a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related

expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). 40% of the credit is refundable. The new credit temporarily replaces the Hope Credit.

- **Tax break for new car purchasers.** The new law creates a new above-the-line deduction for state and local sales taxes paid on the purchase of new cars, light trucks, motorcycles and recreational vehicles. The deduction is available for vehicles purchased from Feb. 17, 2009, through Dec. 31, 2009. The deduction is not, however, available for tax

attributable to vehicle value in excess of \$49,500. The deduction phases out for joint filers with AGIs exceeding \$250,000 and for other filers with AGIs exceeding \$125,000.

- **Alternative Minimum Tax (AMT) patch.** To hold the number of taxpayers subject to the AMT at bay, the new law increases the AMT exemption amounts for 2009 to \$46,700 for unmarried individuals, to \$70,950 for joint returns, and to \$35,475 for married individuals filing separate returns. In addition, the new law allows the personal credits against the AMT.

Tax Law Provisions Help Disaster Victims

When Hurricane Ike blew through Ohio on Sept. 14, 2008, many businesses and homes were damaged, and thousands were left without power for days. Patrick McClary, associate director and tax manager, reports that a number of Whalen’s clients, who experienced loss, have already taken advantage of special tax law provisions to help them recover financially from the impact of this disaster.

When the federal government declares a location to be a major disaster area, the IRS may grant additional time to file returns and pay taxes depending on the circumstances. In addition, both businesses and individuals in an officially declared disaster area can get a faster refund by claiming losses related to the disaster on the tax return for the previous year, usually by filing an amended return.

The National Disaster Relief Act provides the following tax benefits for businesses:

- Allows an affected business taxpayer to deduct certain qualified disaster cleanup expenses.
- Allows an affected business taxpayer to deduct 50 percent of the cost of qualifying property in addition to the regular depreciation allowance that is normally available.
- Increases the limits that an affected business taxpayer can expense for qualifying section 179 property.

For more information about disaster assistance and emergency relief, contact Patrick McClary. To access the latest disaster tax information, go to www.irs.gov, and use the key word “disasters.”

Stimulus Act’s Tax Breaks for Businesses—continued

Another depreciation-related provision extends the special allowance for certain property, generally if acquired in 2009. For eligible property, the special depreciation amount is equal to 50 percent of its adjusted basis. For passenger automobiles that are eligible property under the 50 percent bonus depreciation rules, the \$8,000 increase for the first-year limit on depreciation also is extended to new vehicles placed in service in 2009.

Last year, corporate taxpayers were also allowed to accelerate their alternative

minimum tax (AMT) and research and development (R&D) credits in lieu of taking the 50 percent bonus depreciation. That break has now been extended through 2009.

- **Energy-related breaks for businesses expanded.** ARRA creates or expands several energy-related breaks for businesses, such as the:

- Advanced energy investment credit
- Renewable electricity production credit
- Alternative fuel pump tax credit.

BWC Extends Deadline for Group Rating Enrollment; Initiates Deductible Program

Group Rating is a program offered through the Ohio Bureau of Workers’ Compensation (BWC) that permits employers with better-than-average claim histories to join together through a sponsoring organization for the purpose of being rated as a larger group. By participating in group rating, employers experience a lower premium than could be attained on their own.

For the past 18 months BWC has been reviewing ways to improve the group-rating program and rating setting in general. While it considers these changes, BWC has extended the deadline for employers to apply for the group-rating program from Feb. 28 to April 24.

The bureau has also created a new deductible program, beginning July 1, 2009, that will give employers better control of their workers’ compensation insurance spending and provide an incentive to promote workplace safety.

Under the program, an employer agrees to pay the portion of a claim that falls below the deductible level. For taking on this degree of risk, the employer will receive a premium discount. The program will offer five deductible levels from \$500 up to \$10,000 per claim.

Whalen clients who would be interested in attending an information session on the new program this spring should call Tracy Ceritelli at 396-4200.